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SUBJECT: BRAZIL: NEC Hubbard and DOC Gutierrez Roundtable with Governors October 11, 2007

¶11. (U) SUMMARY: In an October 11 roundtable with Commerce Secretary Gutierrez and National Economic Council Director Hubbard on the margins of the CEO Forum and Commercial Dialogue, the governors of Bahia (Jacque Wagner), Rio Grande do Sul (Yeda Crusius), and Santa Catarina (Luis Henrique Silveira), as well as the vice-governor of the Federal District/Brasilia (Paulo Octavio) discoursed on the challenges and opportunities of their region with a view toward attracting American trade and investment. Secretary Gutierrez explained that the American message was "we want to help." END SUMMARY.

¶12. (U) Secretary Gutierrez opened the roundtable noting that the measure of success for the US and Brazil is creating jobs and growth for both sides. He told the governors that the United States wants Brazil to attract more investment. Regarding infrastructure, he said the US message was "We want to help," whether by sharing technology and technical capability, facilitating financing guarantee mechanisms like EXIM and OPIC, or by introducing large American companies that have been very successful in infrastructure projects. He emphasized the importance of infrastructure development to the growth and competitiveness of Brazil. Director Hubbard noted that Brazil is growing, but has the opportunity for even greater growth, and invited the governors' views regarding what Brazil needs to do and how the US can help to encourage Brazil to move from a 4 percent growth rate to a six or eight percent rate.
RIO GRANDE DO SUL

¶13. (U) Governor Yeda Crusius noted that as a frontier state, Mercosul is important to Rio Grande do Sul and the state exports every type of product it makes. She said the state has the most favorable income distribution in the country and lauded the state's innovation culture and research hubs. She underlined the need for federal tax reform, saying her state loses much under the current structure. Rio Grande do Sul runs a fifteen percent deficit; if tax laws relieved the state's export tax burden, there would be no deficit, she stated. She noted that fifty two percent of revenues go to pay retiree pensions. The state ranks seventh in road coverage. Crusius claimed any cooperation would have to be outside existing arrangements - her state wants tax, pension and labor reform. At the state level, she cited the need for irrigation, the establishment of public-private partnerships for roads, help developing the port, and reforestation assistance. Crusius proudly claimed that her state had the lowest corruption rate in the country and was focused on energy, bio-energy and pro-competitive infrastructure. However, she said, the concentration of resources at the federal level constrains the state's ability to plan and legislation pits one state against another in competing for investments. She urged quick establishment of an American Presence Post in Porto Alegre.

BAHIA

¶14. (U) Governor Jacque Wagner lamented that Japanese and European investors were in his state, but not American. He noted a Bahia state-owned company was involved in building the Miami airport. He noted Bahia requires much infrastructure investment and said he would soon sign a 120 m usd sanitation private-public partnership and intended eventually to fold a project to build a 1.3 bn usd highway west to the Atlantic into the PAC. Wagner urged eliminating

visa requirements in both directions and increasing study and travel exchanges between our countries. He noted the need for improved airlinks between our countries, and opined that "ethnic tourism" was an area for strong potential growth. He commented Bahia's growth had been uneven, sometimes as much as seven percent, sometimes much lower than four percent. He cautioned against any temptation ever to compare Brazil to China, bristling that "we are not the same culture; you have to get used to the way we are and the way we grow."

SANTA CATARINA

¶5. (U) Governor Luis Henrique Silveira noted that while Santa Catarina covers only one percent of Brazil's territory, the state is the country's fifth largest food producer and fifth largest exporter. He said two percent of the state's budget goes toward science/tech research and another two percent toward university scholarships. Almost one hundred percent of 7-14 year olds are in school. The governor noted the state has lowered infant mortality the most, has the highest life expectancy, and the lowest crime rate in Brazil. Silveira felt that Santa Catarina's advantages included lack of a big metropolis, a decentralized state government based on 36 separate districts, and its geographic location at the heart of the territory covered by Mercosul. He said Santa Catarina is "about culture, innovation and software development," and highlighted the Ecopower conference in November that our Ambassador will attend.

FEDERAL DISTRICT/BRASILIA

¶6. (U) Vice-Governor Paulo Octavio highlighted Brasilia's relative youth as a city at 47 years old and the importance of the United States to its construction, from the lake designed by an American company to US steel technology used in Brasilia's buildings. He portrayed Brasilia as a vibrant growing city with a constant influx of citizens moving in from other parts of the country. The vice-governor noted that Brasilia has the highest per capita income in the country. He hastily added that when his governor came in nine months ago, he let go a great many superfluous civil servants. The vice-governor noted his state had excellent relations with the

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federal government, helped in part by the governor being the same party as the executive branch. Octavio indicated plans to implement sanitation and other projects financed by the World Bank, but said the state needs further investment in infrastructure and in education to support its growth. He mentioned full-day schooling will start next year. Octavio said his state wants a 500 m usd gas pipeline, a 150 m usd beltway, a new cargo airport, and development of five "thematic" parks/complexes (for example, one for the technology sector). He stated his government wants five million dollars to make the city totally wireless and "would love an American company to do it." He urged establishment of an international flight between Brasilia and the United States and noted the Brasilia/Lisbon flight is 80 percent full every day. Octavio wanted Brazil to abolish visas for Americans, believing more visitors would come in that case (drawing hearty agreement from the other governors). He also wished the US visas process were easier.

CONCLUSION

¶7. (U) Secretary Gutierrez concluded the meeting by noting that he was considering sending an investment mission focused on infrastructure to Brazil. He urged the governors to let the Ambassador know their specific infrastructure priorities, in order to ensure that U.S. companies were aware of opportunities. COMMENT: The event provided a good opportunity for the delegation to obtain a sense of the challenges and opportunities faced at the state level in Brazil. The governors were visibly pleased at the prospect of a DOC-led infrastructure mission in the near future. END COMMENT.

SOBEL